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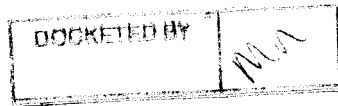
Tucson Electric Power Company

Arizona Corporation Commission

88 East Broadway Blvd., P.O. Box 711
Tucson, Arizona 85702

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April 2, 2012

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Re: **TEP Demand-Side Management Surcharge Rider R-2**
Docket Nos. E-01933A-07-0402 and E-01933A-05-0650
Commission Decision No. 70628

To Whom It May Concern:

Pursuant to Arizona Corporation Commission ("Commission") Decision No. 70628 (December 1, 2008) ("Decision"), Tucson Electric Power Company ("TEP" or "Company") is required to submit for Commission approval any adjustment to its Demand-Side Management Surcharge ("DSMS").¹ The purpose of this filing is to inform the Commission that TEP is not requesting an adjustment to its current DSMS at this time. The current DSMS has been in effect since June 1, 2010.

Pursuant to the discussions between the Commission, Staff, and the Company, that occurred during the March 19, 2012 Open Meeting in Docket No. E-01933A-11-0055 regarding TEP's pending 2011-2012 Demand-Side Management Implementation Plan, TEP will maintain "the status quo" with respect to its current Commission-approved DSMS of \$0.001249 per kWh.² Accordingly, TEP will utilize the current DSMS to fund the following: (i) 2012 Demand-Side Management ("DSM") program budgeted costs of \$7.5 million; and (ii) unrecovered historical DSM costs of \$8.7 million. These costs have been previously authorized by the Commission in the Decision for recovery by the Company through the DSMS.

Through its current DSMS, TEP will continue to fund the following Commission-approved DSM programs at reduced levels: (i) Education and Outreach; (ii) Low-Income Weatherization; (iii) Residential New Construction; (iv) Existing Homes and Audit Direct Install; (v) Shade Tree; (vi) Residential Direct Load Control Pilot; (vii) CFL Buy-down; (viii)

¹ Section 9.5 of Exhibit A of the Decision and Finding of Fact No. 27 of the Decision.

² See Transcript of Open Meeting Vol. III dated March 16, 2012; see also TEP's Exceptions to Staff's Proposed Order dated December 2, 1011.

Home Energy Reports; (ix) Non-Residential Existing Facilities; (x) Small Business; (xi) Efficient Commercial Building Design; and (xii) Commercial Direct Load Control. Because some of these programs continue to remain either unfunded or only partially funded by the existing DSMS, TEP estimates an un-recovered balance of \$4.5 million at the end of the next DSMS period which is May 31, 2013. The Company intends to address any such un-recovered balance in a future filing or Commission proceeding related to TEP's DSM Plan.

In the alternative, should the Commission determine that it is in the public interest for the Company to recover the additional un-recovered historical DSM costs of \$4.5 million at this time (rather than continuing to defer such authorized recovery to a future proceeding), TEP would recommend approval of an increase in the DSMS from the current charge of \$0.001249 per kWh to \$0.001729 per kWh to take effect on June 1, 2012.

If you have any questions or require any additional information, please contact Denise Richerson Smith at 520-918-8339.

Sincerely,



Bradley S. Carroll
Senior Regulatory Attorney

cc: Steve Olea
Barbara Keene
Compliance Section